Harrow COUNCIL LONDON

Pension Fund Committee

Minutes

12 October 2022

Present:

Chair:	Councillor David Ashton	
Councillors:	Nitin Parekh Norman Stevenson	Krishna Suresh
Co-optee (Non-voting):	Vacancy	
Trade Union Observers:		
Independent Advisers:	Mr C Robertson	Independent Adviser
	Honorary Alderman R Romain	Independent Adviser
Absent:	Pamela Belgrave	GMB

1. Attendance by Reserve Members

RESOLVED: To note that there were no Reserve Members in attendance.

2. Appointment of Vice-Chair

RESOLVED: To appoint Councillor Nitin Parekh as Vice-Chair of the Committee for the 2022/2023 Municipal Year.

3. Declarations of Interest

RESOLVED: To note that Councillor Norman Stevenson, a member of the Committee, declared a non-pecuniary interest in that he was a Director of Cathedral Independent Financial Planning Ltd., and that he had clients who were past and present members of the Harrow Pension Scheme. His wife was a member of Harrow Council's Pension Scheme. He would remain in the room whilst the matters were considered and voted upon.

4. Minutes

RESOLVED: That the minutes of the meeting held on 9 March 2022, be taken as read and signed as a correct record.

5. Public Questions, Petitions and Deputations

RESOLVED: To note that no public questions, petitions or deputations were received at this meeting.

6. Co-opted member

The Chair stated that the Council did not appoint a co-opted member of the Committee at its annual meeting in May 2022. The Committee noted that Howard Bluston had served on the Committee for many years, previously as a Councillor and latterly as a co-opted member.

The Committee placed on record its thanks for his commitment and service and wished him well for the future.

RESOLVED: That the Committee's thanks be conveyed to Howard Bluston for his service as Co-opted Member of the Committee.

Resolved Items

7. Review of Pension Fund Governance Compliance Statement

The Committee received a report of the Director of Finance and Assurance which reviewed the Pension Fund's Governance Compliance Statement. An officer introduced the report stating that the arrangements were reviewed periodically with the last review being 24 March 2021. The Statement reflected the Pension Board's comments. It was noted that the role of the Pension Board was to review and test policies prior to submission to the Committee.

The officer informed the Committee that, in relation to principle G – Access, the Board had raised a concern that the Chair and members of the Pension Board were not able to attend Part II of the Pension Fund Committee meetings or to see Part II papers. The Committee noted that this matter had previously been raised with the monitoring officer who had ruled that this approach was correct.

Representatives of Aon and Hymans Robertson indicated that from their experience it was common for Pension Board members to be invited to Pension Fund Committees and to have full access to the papers. An Independent Adviser indicated that it would be more normal for the Chair of the Pension Board or their representative to attend the whole meeting, with the rest of the Board being given full access to papers, including Part II.

The Committee were of the view that it was logical that the Board attend and make comments as appropriate, particularly as it had been made aware that most other Pension Boards were allowed access. It was further noted that no voting rights were involved. It was agreed that the monitoring officer be requested to reconsider the matter.

In response to a question from an Independent Adviser regarding the delegated functions of the Director of Finance and Assurance, the Committee was advised that the Director would only act in accordance with decisions previously made by the Committee. The delegation meant that the signing off of agreements did not have to wait until the next meeting of the Committee.

RESOLVED: That

1. the latest position on the LGPS Good Governance Review be noted;

2. the updated Governance Compliance Statement be approved for adoption;

3. the Monitoring Officer be requested to review the advice that the Chair and Members of the Pension Board were not able to attend Part II of the Pension Fund Committee meetings or to see Part II papers.

8. Draft Pension Fund Annual Report for 2021-22

The Committee considered a report of the Director of Finance and Assurance which presented the draft Pension Fund Annual Report for the year ended 31 March 2022, and the External Audit Plan and invited the Members to comment. The report also updated on progress with the 2021-22 audit.

An officer introduced the report, stating that the audit had been delayed by some complex discussions on asset funds. It was hoped to submit the final audit report to the next meeting of the GARMS Committee and the Pension Fund Committee, subsequent to sign off of the Council’s main accounts. The Committee agreed that it would be useful for the Council’s external auditors to attend the meeting when the final audit report was received. In response to a question, it was noted that the appointment of External Auditors was part of a national procurement exercise with a fee scale based on the size of the authority.

A Member enquired about the membership of the Pension Fund by an independent school and was advised that it was historical, a common practice in the 1960s and 70s.

In response to a suggestion by an Independent Adviser, it was agreed that the strategic benchmark should be used when measuring performance. It was noted that underlying indices and not peer group returns were applicable.

The representative from Hymans Robertson drew attention to the fact that the fund was starting to be cash negative and suggested that there was a need to plan with advisers. The representative from Aon advised that at present it was an operational issue rather than cash drag on solvency. The officer advised that the trend towards maturity would result in the need to look at cash flow modelling over the next few years. The representative from Aon stated that cash flow modelling would be used to inform the Investment Strategy review which would follow once the triennial valuation was completed.

An Independent Adviser referred to the Fund's investments with the London CIV which reinvest income from dividends and interest thereby accumulating income rather than distributing it. He suggested that distributing income could be a simple option in the first instance rather than realigning the investment strategy ahead of the completion of the triennial valuation.

RESOLVED: That

1. the draft Pension Fund Annual Report for 2021-22 be approved for publication and the Director of Finance and Assurance be authorised to make any changes arising from the audit of accounts before publication;

2. the Council's external auditors be invited to the next meeting;

3. the potential distribution of income be pursued with the London CIV.

9. Performance Dashboard and Update on Regular items

The Committee received a report of the Director of Finance and Assurance, together with confidential appendices, and an updated Appendix 5 which was included on a supplemental agenda, and which was considered as a matter of urgency. The report updated Members on:

- the draft work programme inviting Members' comments and agreement;
- the investment performance dashboard report summarising key fund statistics and data, and risk indicators;
- PIRC (Pension and Investment Research Consultants Ltd performance to 30 June 2022 and
- the meetings of the Pension Board.

An officer introduced the report and referred to the confidential appendices which would require further discussion in the private session of the meeting.

The officer stated that the work programme would be updated in accordance with discussions at the training session the previous day. It was agreed that the revised dates of meetings of the Committee for the remainder of the 2022/23 municipal year be circulated.

The Committee was informed that the estimated funding level had improved since the 2019 valuation and the probability of being able to meet the liabilities in full in 20 years' time had increased. No de-risking actions were recommended at the present time. The summary indicated that 78% of the Fund was managed by the London CIV or passive fee arrangements.

In response to a question from an Independent Adviser as to whether a 50% hedge should be retained, the officer stated that he had contacted Aon who had advised that, in essence, if it was from scratch the answer would be no, but it was not appropriate to take the hedge off at this time. The Aon representative stated that the 50% hedge was to protect against volatility arising from currency fluctuations rather than the underlying equities and that when the dollar strengthened the currency hedge had a negative impact, and the opposite happened when sterling strengthened. Although there had been a loss on the currency hedge this was offset by the higher sterling equivalent value of the overseas equities, and given that sterling was at historically low levels the hedge should be retained. An Independent Adviser stated that it was a strategic decision to hedge this exposure, and it had been taken because most of the equity portfolio was invested in overseas equities.

In response to a request, the officer agreed to circulate the 30 September valuation as soon as it was available. The officer stated that although market movements had reduced investment asset values, they had also reduced the value of liabilities, and the health of the pension field was good.

An Independent Adviser highlighted that the movements in markets meant that equities were now towards the upper end of their strategic range, and that risk control assets (fixed income) were towards the lower end, and hence rebalancing to the strategic benchmark should be considered. The representative from Aon supported this view and suggested that they work with officers to achieve this.

In response to queries about pooling of investments via the London CIV, , the Committee was advised as follows:

- the DCLG had determined that LGPS funds should be grouped into a number of 'pools' and it was felt that having 89 individual LGPS funds was inefficient and that having some groupings would drive fund management costs down through combined purchasing. It would also lead to a sharing of resources and facilitate investment in infrastructure which was a key part of the government's agenda. It was accepted that this would take place over a number of years. At this time Harrow has pooled a similar proportion of its investments to most London funds;

- the timing and direction of travel depended on the current pensions minister. The representative from Hymans Robertson advised of a backlog at DLU, meaning that the planned LGPS consultation including pooling was still to be drafted. The consultation on TCFD was in progress. Some pools worked together on certain asset classes eg London CIV and LPP had collaborated on the 'London Fund'.

RESOLVED: That

1. the Work Programme for the remainder of 2022/23 be agreed; and

2. the officers work with Aon to rebalance the Fund's equity and risk control assets back to the strategic benchmark.

10. Review of Investment Managers' Internal Controls

The Committee received a report of the Director of Finance and Assurance which summarised the contents of the latest internal controls reports for the Fund's investment managers. It was noted that the reports had been reviewed and showed that controls were operating effectively and, where exceptions had been identified, that there had been a satisfactory management response.

An officer introduced the report, advising that the Council audit required evidence that the review had taken place. The reports and management responses indicated that each of the fund managers demonstrated appropriate levels of control and very few exceptions had been highlighted.

In response to a suggestion by an Independent Adviser it was agreed that, as there were new Members on the Committee, information on the risk register be provided at the next meeting.

RESOLVED: That the report be noted.

11. Exclusion of the Press Public

RESOLVED: That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item(s) for the reasons set out below:

Item	Title	Reason
15.	Performance Dashboard and Update on Regular Items - Appendices	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
16.	Review of Investment Managers Internal Controls - Appendix	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
17.	Triennal Valuation 2022 – Initial Whole Fund Results	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority

		holding that information).
18.	LaSalle Property of Funds	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

12. Performance Dashboard and Update on regular items

Members received confidential appendices from Aon and an Independent Adviser. The Aon appendix set out its views on the Council's investment managers and a ratings summary. The appendix from the Independent Advisor included performance information that had been obtained from the London CIV or directly from the managers themselves rather than from PIRC.

RESOLVED: That the information in the confidential appendices be noted.

13. Triennial Valuation 2022 - Initial Whole Fund Results

The Committee received a confidential report of the Director of Finance and Assurance which provided a summary of the initial 'whole fund' results from the 2022 valuation and set out a proposed contribution strategy for the London Borough of Harrow for the period 1 April 2023 to 31 March 2026.

Members received a presentation from Hymans Robertson LLP on the actuarial valuation at 31 March 2022. The presentation included:

- Data and assumptions – financial and demographic
- Headline results
- Funding strategy and stress testing

The Hymans representative stated that he had contacted the Section 151 officer with regard to the valuation. The cost of living crisis could result in an increase in the numbers taking deferred pensions or moving to a 50-50 scheme. The Covid pandemic had not affected the fund significantly, although it had resulted in some deaths which had occurred earlier than might otherwise have been expected. The diversification of the fund's investments provided resilience.

An Independent Adviser reported that ten year gilt yields which were at 1.6% on 31 March were now up by a factor of between two and three. He suggested that the results of the valuation should be assessed using current financial market levels. He thought it might also be helpful to consider the 6% return cited and the historical returns used in real (after deducting inflation) terms. In addition, some numerical assurance would be helpful regarding the TCFD consultation on the three climate risk scenarios. The Hymans representative stated that sample cases could be prepared once all scheme member data had been received. He further reported that rising interest rates would provide higher than expected returns. Liabilities had shrunk faster than assets but not to the extent that there was a need to revisit the entire valuation. The Independent Adviser agreed, adding that his suggestions were aimed at providing reassurance.

In response to questions, the Committee was informed:

- regarding the discount rates, the Committee was informed that new market data would be reviewed and monthly updates prepared;
- there were two types of updated valuation: using annual rebalancing and a formal valuation every three years;
- the Pension Fund Committee had previously agreed that the valuation should aim to deliver at least a 70% probability of being 100% funded in 20 years time. If this was achieved even when each of the various 'stress' tests were applied then the actuary would sign off the valuation report;
- most pension funds were looking at derisking and starting to purchase more liquid assets. Most were considering a small reduction in employer contributions;
- a funding update to 31 September would be produced.

The Chair stated that if agreement was given to proceed the situation could be reviewed if there was negative feedback. He thanked the Hymans representative for the presentation.

RESOLVED: That the report be noted and the contribution strategy be approved.

14. Property Investment - LaSalle Property Fund of Funds

The Committee considered a report from the Director of Finance and Assurance regarding the Fund's property investment in the La Salle Fund of Funds.

Members discussed the report and additional analysis from Aon.

RESOLVED: That the actions proposed in Aon's report, with the exception that the Insight DGF should not be used as a shorter-term home for sale proceeds, be agreed and that the officers be instructed to implement those actions.

(Note: The meeting, having commenced at 3.30 pm, closed at 5.30 pm).

(Signed) Councillor David Ashton
Chair